VZCZCXYZ0000
RR RUEHWEB

DE RUEHDG #0043/01 0342123
ZNR UUUUU ZZH
R 032123Z FEB 10
FM AMEMBASSY SANTO DOMINGO
TO RUEHC/SECSTATE WASHDC 0700
INFO WHA CENTRAL AMERICAN COLLECTIVE
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RHMFIUU/CDR USSOUTHCOM MIAMI FL
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHC/USAID WASHDC 0013
RUEHCV/AMEMBASSY CARACAS
RUEHKG/AMEMBASSY KINGSTON
RUEHPU/AMEMBASSY PORT AU PRINCE
RUEHSP/AMEMBASSY PORT OF SPAIN
RUEHUB/USINT HAVANA 0076
RUEHWN/AMEMBASSY BRIDGETOWN

UNCLAS SANTO DOMINGO 000043

SENSITIVE
SIPDIS

E.O. 12958: N/A
TAGS: ENRG EFIN DR
SUBJECT: DR: Electricity Sector at a Crossroads

REF: A) 09 SANTO DOMINGO 515; B) 09 SANTO DOMINGO 817

SUMMARY

¶1. (SBU) Six months ago, President Leonel Fernandez shook up the dysfunctional electricity sector by appointing businessman Celso Marranzini - a long-time critic of the status quo - as head of the Dominican Corporation of State-Owned Electricity Companies (CDEEE). Marranzini has since embarked on a comprehensive reform agenda, supported by loans from the international financial institutions (IFIs). Emboffs recently met with Marranzini, electricity generators, and distributors to obtain their assessments of the sector's current status and future prospects. There is a possibility for a true sea-change in a sector long considered an albatross around the country's neck, but questions remain about precisely how the reforms will be accomplished. END SUMMARY.

MARRANZINI'S APPOINTMENT

¶2. (SBU) Under Marranzini's predecessor, Radhames Segura, a major political operator in the ruling Dominican Liberation Party (PLD), the CDEEE was the subject of numerous allegations of political favoritism and rampant corruption, and was criticized for the absence of a strategy to address the electricity sector's increasing problems (Ref A and B). The CDEEE was in debt to generators for approximately USD 500 million, and up to 40 percent of the generated power was lost or stolen. Blackouts increased in frequency, and popular discontent with the situation resulted in street protests. With the IFIs conditioning any standby agreement or disbursement of future loans on reform of the sector, and with congressional/municipal elections approaching in May 2010, Fernandez responded dramatically by naming Marranzini, a respected businessman and harsh critic of the Government's handling of the electricity sector, to replace Segura.

IMF STAND-BY AGREEMENT REQUIRES ELECTRICAL SECTOR REFORM

¶3. (U) Meanwhile, as pressure built on Fernandez in the summer of

2009 to take drastic steps to address the problems in the electricity sector, the Dominican Government (GoDR) was facing a crippling lack of funds as revenues plunged due to declines in exports, tourism and remittances brought about by the global economic crisis. After first publicly disavowing another program with the International Monetary Fund (IMF), the Fernandez administration eventually shifted course and approached the Fund. In November 2009, it signed a USD 1.7 billion Standby Agreement (SBA) , which also freed up USD 450 million worth of funds that had been put on hold by the Inter-American Development Bank (IDB) and the World Bank (WB). The SBA Letter of Intent provided for six areas of improvement for the electricity sector:

* Implementation of a flexible tariff system that responds to market fuel prices;

* Elimination of the PRA (blackout reduction subsidy program);

* Reduction of technical losses and improved metering to reduce theft;

* Improved management of distribution companies;

* External audits of CDEEE and distribution companies;

* Development of a plan to invest in new generation and distribution capacity.

MARRANZINI'S PLANS

¶4. (U) Marranzini, lauded for bringing a businessman's approach to management, immediately began addressing core problems. In the first few weeks of his tenure, he fired hundreds of Segura's patronage appointments, worked diligently to pay down the debt owed by the GoDR, and continued to focus on key problems that hinder the sector's long-term prospects. In a January 6, 2010, meeting with Charge and Emboffs, Marranzini outlined the next steps in his reform program. One of the more important goals is to eliminate, by June 2010, the Blackout Reduction Program (PRA), a geographic subsidy scheme that includes everyone within a particular neighborhood regardless of use of services or ability to pay. Program costs are borne by the GoDR (75 percent) and distribution companies (25 percent). There are 474,000 PRA users nationwide, the equivalent of 21 percent of total electricity users, and the program costs USD 120 million annually. Marranzini told Emboffs that he expects the PRA will be replaced with a direct cash transfer designed to provide 829,000 poor families with 100kw of electricity per month at a cost comparable to the PRA. He will be helped in accomplishing this task by the IBD's Fiscal Strengthening Program, approved in October 2009, which includes specific guidelines for addressing the electricity subsidies and the PRA.

¶5. (U) Resolving the PRA is not Marranzini's only IFI-mandated challenge. The SBA also requires the CDEEE to pay, by the end of 2010, any current electricity generation debt that is more than 45 days in arrears. Near the end of 2009, the total current debt was USD 280 million. Thanks to the IFI support, in December 2009, the GoDR paid USD 190 million of the USD 280 million owed in current debt, leaving a balance of USD 90 million. Marranzini said he expects the balance to be paid by the end of January 2010. (NOTE: As of February 2, CDEEE could not confirm the balance had in fact been paid.) However, in addition to the current debt, the GoDR also owes USD 150 million to generators in frozen (older) debt. How the remaining frozen debt will be paid is unclear.

¶6. (SBU) Beyond paying off the debt, Marranzini also has to find a way to stop its accrual. As noted above, before his tenure, the

electricity sector experienced losses nearing 40 percent, with almost 30 percent coming from theft and non-payment. This gap between collection and generation was what pushed the CDEEE into debt in the first place, and Marranzini has attacked the problem with gusto. Over the past six months, the CDEEE has reduced monthly losses - reportedly increasing payments from 30 percent of the bill to 90 percent - but continues to operate at a deficit. The CDEEE has increased the monthly tariff by 12 percent and simplified the tariff rate structure for residential customers. However, according to Marranzini, monthly bills from the generators are approximately USD 121 million while monthly collections are only USD 100 million. Marranzini acknowledged that a key component of the increased collections was the need to double the number of meters nationwide. Estimates vary but at least one million new meters will be needed to accurately track usage and properly bill customers. The World Bank intends to help the CDEEE improve metering in a future program.

¶7. (U) At the meeting with Emboffs, Marranzini provided no new information about the prosecution of electricity theft, a key tool in his effort to improve collections. In public fora, he has declared that he would actively seek punishment of businesses and residences with illegal connections. At an American Chamber of Commerce (AMCHAM) lunch in November 2009, Marranzini's promise to prosecute electricity theft was met with hearty applause by an overwhelmingly Dominican audience.

NEW PRESIDENTIAL DECREE PROVIDES TOOLS TO ADDRESS DISTRIBUTION PROBLEMS

¶8. (U) The Dominican electricity sector is comprised of five entities: the CDEEE, the generators, and the three distributors -- EdeNorte, EdeSur, and EdeEste (collectively called the "Edes"). As noted above, when Marranzini took his position in August 2009, he fired hundreds of CDEEE employees - a cost-cutting measure widely expected of the former businessman when he arrived at an organization legendary for its patronage positions. Control of the Edes eluded Marranzini, however, until January 5, 2010, when, by Presidential decree, the CDEEE head's powers were expanded to include management of the Edes.

¶9. (SBU) At his meeting with the Charge and Emboffs, Marranzini referred to the Edes as "islands of power." The Edes should not be entities of the state and he set forth a three-year plan to both centralize electricity distribution under one entity and reprivatize the Edes. Marranzini described various tricks used to defraud the Edes of payments, including false electronic payments and electronic roll-backs of metered electricity use. He has set June 2010 as his target date to have SAP software running at CDEEE, forcing the three Edes to better monitor account changes and payments. Staff reductions are also expected at the Edes. Armed now with the sweeping powers given to him by the Presidential decree, Marranzini waxed philosophical, saying a failure on his part now to manage the electricity sector would be a failure for the private sector as well. He is clearly aware that, after leading the criticism for years, he now must prove that private sector-style management can be effective in the Dominican government

A VIEW FROM THE PRIVATE SECTOR

¶10. (SBU) On December 29, 2009, Econoffs met with a representative of AES Dominicana, a U.S.-based company that provides 36 percent of the electricity in the DR. The representative suggested that the GoDR needs to establish a variable billing structure based on market prices, noting that such a system already exists for gasoline and diesel, whose prices at the pump change every Friday based on market prices. (The aforementioned IDB program also seeks

to help the CDEEE charge rates reflective of production costs.) His thinking - in line with the IMF's suggestions - is that this system would help equilibrate usage payments with generation costs. In a December 9, 2009, conversation with Pol/Econ Counselor, before Marranzini's powers were extended, the same representative opined that Marranzini was on the right track, but that, unless he gained power over the Edes, his reforms could not be properly implemented. The representative considers the presidential decree and control of the Edes a step in the right direction. To achieve lasting changes in the electricity sector, however, he believes that President Fernandez, the President of the National Energy Commission, the Edes, and the Solicitor General all have to act in unison. With all of those parties participating, he predicted the entire energy sector could be turned around in 36 months.

A VIEW FROM A DISTRIBUTOR

¶11. (SBU) On January 7, 2010, Econoff met with Federico Valera, Manager of Energy Purchasing and Regulation, for EdeSur, one of three state-owned distribution companies, to obtain an assessment from the electricity distributors regarding the challenges they face. Valera highlighted the Edes' current ignorance regarding exactly who is using electricity and how much each user is taking. Besides the inefficiency inherent in the PRA, electricity is also severely under-metered in the DR. As noted above, roughly 40 percent of all electricity generated is lost, either due to theft (30 percent) or technical inefficiencies (10 percent). It is estimated that one million unmetered users currently receive electricity free of charge. Valera recommended that short- and mid-term investments should be focused on installing meters, rather than constructing new generation facilities. Increased metering, in his opinion, would achieve two goals: (1) it would increase revenue collection and thus reduce or eliminate the monthly deficits and (2) it would reduce electricity demand as users who previously received electricity free of charge would invariably lessen their consumption when faced with an actual electricity bill.

WHAT LIES AHEAD?

¶12. (SBU) The AES representative opined that the GoDR needs a national energy plan to help guide its investments and guarantee future electricity demand is met. When asked about a national energy plan, Marranzini was less enthusiastic. He is focused on the next three years and seems to have a clear vision for the immediate changes that are needed: improved metering, increased revenue collection, elimination of the PRA, and control over (and eventual reprivitization of) the Edes are all changes that will improve the electricity sector.

¶13. (SBU) One of the ironies of the Dominican electricity sector is that the generators have more than enough capacity to meet demand - but only when all systems are on-line. Dominican law requires generators to continue providing energy as long as they have a fuel supply. Since the GoDR was traditionally months in arrears in its payments to the generators, there was less financial incentive for the generators to keep all of their plants on-line. Generator representatives have told Econoffs on more than one occasion that "system repairs" and "scheduled maintenance" are euphemisms for a willing reduction of the energy supply in response to delayed payments.

¶14. (U) That said, demand is expected to outpace total energy availability in 2013. According to AES, USD 2.5 billion in generation investments are needed over the next five years to meet anticipated demands for electricity . Commitments to constructing

new electricity generation plants continue to receive the attention of the press. Almost monthly, there are announcements of new proposals to build power stations - many coming from far-flung countries such as Libya and Korea. Most recently, the GoDR announced a German-Emirati group will construct a 600mW natural gas plant near Manzanillo and another 800mW plant will be constructed in an undetermined location by a Canadian firm. Marranzini confirmed the newspaper reports of the 600 and 800 mW plants and seemed confident that they would come on-line as planned.

COMMENT

¶15. (SBU) The changes made under Marranzini's tenure suggest a brighter future for the energy sector. President Fernandez's recent decree regarding the Edes is a strong show of support for the CDEEE director's efforts. If Marranzini is able to pay off debt and eliminate the operating deficit, he will likely win over the support of the generators. However, doing so will likely encounter resistance from the distributors - which are controlled by a number of people who stand to lose from a more efficient sector - and from those consumers, particularly businesses, that have become accustomed to free power through theft or subsidy (particularly the PRA). Many questions remain to be answered. How will one million new meters be installed and incorporated into the billing system? How will electricity theft and failure to pay bills be addressed? How will the distributors and consumers respond to the reforms? Will any of the rumored future power plants actually be constructed? So far, the GoDR and the IFIs have identified the "what" but they are soon going to have to confront the "how." Nor should we expect the more politically unpopular measures to be taken until sometime after the May 2010 mid-term elections. END COMMENT.

¶16. (U) MINIMIZE CONSIDERED.
Lambert